Article MARKET COMMENTARY

Market round-up: 12 - 16 August

Tom Watts recaps the week and looks ahead to next week.

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This week just ended

Described as an "olfactory masterpiece" featuring ylang ylang and "creamy undertones" of sandalwood, offering "a touch of opulence, making every walk a fragrant and fashionable affair," luxury goods firm Dolce & Gabbana just launched a perfume for ogs, named after the co-founder's own four-legged friend, Fefe. Housed in a £85 bottle featuring a 24-carat gold-plated paw print, the new perfume is sure to be more than fetching for any dog lucky enough to be given a spray by their owner.

From making scents to making cents, the sweet smell of success was also in the air for investors this week too as global markets largely rebounded from the volatility witnessed during the beginning of the month.

Allowing us to catch a whiff of how the domestic economy is faring, the Office for National Statistics released a raft of labour data on Tuesday, showing a mixed picture for employment landscape. The data showed pay growth dropped to its lowest in nearly two years in the second quarter, likely reassuring the Bank of England that inflation pressures are easing, while the unemployment rate unexpectedly dropped, showing a still-resilient economy.

Average weekly earnings, excluding bonuses, were 5.4% higher than a year earlier for the three months to the end of June, down from 5.8% in the previous three months, the lowest since August 2022, However, the jobless rate unexpectedly fell from 4.4% to 4.2%, its lowest since February, bucking economists' expectations for a slight rise.

The data acted as a precursor to much anticipated inflation data for the UK, released on Wednesday, which still showed that whilst prices rose quicker last month, in essence, they are still moderating over the longer term. Rising to 2.2% from 2% but slightly below the 2.3% predicted, the reading swerved to bolster expectations that the Bank of England (BoE) would continue on their rate cutting cycle into September, increasing the chances of a 0.25% cut to 44% from 36% before the data’s release.

Wednesday's data also showed that annual services price inflation fell to 5.2% in July from June's 5.7%, below most forecasts, including the BoE’s own prediction. July’s figures contrasted with June's sharp increase in the cost of hotels, as well as downward pressure from air fares, roadside recovery services, package holidays and cultural events including live music.

The good news was set to continue for the UK economy as a second spray of domestic data on Thursday showed that the Gross Domestic Product (GDP) showed that the economy grew by 0.6% between April and June, continuing its recovery from recession at the end of last year. However, during June, monthly output growth slowed to zero from 0.4% in May, as heavy rain hurt retail sales and a doctor's strike contributed to a 1.5% drop in healthcare activity. The BOE does seem less upbeat about the outlook for the remainder of 2024 however, seeing growth slowing to 0.4% in the third quarter and 0.2% in the final three months of the year, which it views as closer to the economy's underlying growth rate.

Also making a splash this week was US CPI data, showing a further slowdown in price rises for the world's largest economy. Rising moderately in July, inflation slowed to below 3% for the first time in nearly 3-1/2 years, opening the door wider for the Federal Reserve to cut interest rates next month. A 0.4% increase in the cost of shelter accounted for nearly 90% of the rise, with food prices gaining 0.2%, matching June's rise. Creating a bit of a stink, egg prices jumped 5.5%, whilst meat, fish, fruits and vegetables, and non-alcoholic beverages rose significantly.

However, much like Fefe's new fragrance, investors were happy with the overall inflation reading, with markets rising considerably after it *mist* expectations…

This coming week

The coming week sees not only a journey through a host of economic data but also a more physical one, as many of the big hitters of the investor world make their way to Jackson Hole, Wyoming for the annual symposium on all things finance.

However, when leaving for any trip, big or small, one has to first leave their house, with the coming week aptly providing us with Rightmove's Housing Price Index data on Monday morning. The data usually acts as a leading indicator of the housing industry's health as rising house prices often attract investors and spur industry activity. When a house is bought or sold, it creates a ripple effect across many different sectors, from solicitors and surveyors to DIY shops all cashing in, making the data both important and far-reaching.

As many an organised traveller will tell you, it is always worth doing some prep before you set off for new lands, in this case, the Federal Reserve's minutes from their last meeting, released on Wednesday, should do the trick. The release will act as a detailed record of the central bank's most recent meeting, providing in-depth insights into the economic and financial conditions that influenced their vote on where to set interest rates and should have a strong impact on global markets. With the Fed seemingly debating whether to raise rates by 0.25% or 0.5% for their September meeting, the notes should take on added significance and could indeed help us gauge expectations for Jay Powells speech in Jackson Hole.

Waving to mainland Europe out of the aeroplane window, the continent will provide us with a host of Purchasing Manager Index data, covering both the Manufacturing and Services sectors for Germany, France, an overall European composite, the UK and US. The readings will give us an invaluable sense of the global economy at a company level as businesses will be asked to rate the relative level of business conditions including employment, production, new orders, prices, supplier deliveries and inventories.

Landing in the US, we have American Unemployment Claims figures to digest on Thursday, giving us a fair idea of how the US labour landscape is holding up in the face of higher rates and if the Fed should feel comfortable in lowering them next month.

With our journey nearly complete, all the remains is the short trip to the Jackson Hole Symposium itself, starting on Friday. The summit will be attended by central bankers, finance ministers, academics, and financial market participants from around the world. The meetings are closed to the press but officials usually talk with reporters throughout the day. Comments and speeches from central bankers and other influential officials can create significant market volatility and will certainly be watched closely for any hints that the central banks are committed to cutting rates in the coming months.

The information in this blog or any response to comments should not be regarded as financial advice. If you are unsure of any of the terminology used, you should seek financial advice. Remember that the value of investments can go down as well as up, and could be worth less than what was paid in. The information is based on our understanding as at 16 August 2024.

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Risk warning

The value of your investments can go down as well as up and you may get back less than you paid in. Tax rules can always change in the future. Your own circumstances and where you live in the UK could have an impact on tax treatment.

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